

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Washington	County Gratiot
Fiscal Year End March 31, 2006	Opinion Date August 25 2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

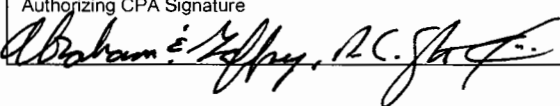
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	
		License Number 1101022020	

**Township of Washington
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of Washington

Gratiot County, Michigan

March 31, 2006

BOARD OF TRUSTEES

Mr. Donald Cook

Supervisor

Ms. Marilyn Whitford

Clerk

Ms. Ruth Whaley

Treasurer

Mr. Ron Wolfe

Trustee

Mr. Charles Misenhelder

Trustee

Township of Washington

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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Suite 100
East Lansing, MI 48823
(517) 351-6836
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INDEPENDENT AUDITOR'S REPORT

To the Members of Township Board
Township of Washington
Ashely, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Township of Washington, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Washington's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Township of Washington, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 25, 2006

BASIC FINANCIAL STATEMENTS

Township of Washington
STATEMENT OF NET ASSETS

March 31, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 129,495	\$ 26,281	\$ 155,776
Receivables	4,146	10,567	14,713
Total current assets	133,641	36,848	170,489
Noncurrent assets			
Special assessments - deferred	-	117,348	117,348
Capital assets not being depreciated	5,575	-	5,575
Capital assets, net of accumulated depreciation	8,330	192,698	201,028
Total noncurrent assets	13,905	310,046	323,951
TOTAL ASSETS	147,546	346,894	494,440
LIABILITIES			
Current liabilities			
Accounts payable	1,931	-	1,931
Due to other governmental units	-	5,791	5,791
Accrued interest payable	-	2,221	2,221
Current portion of bonds payable	-	3,385	3,385
Total current liabilities	1,931	11,397	13,328
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	88,010	88,010
Advance from other governments	-	14,020	14,020
Total noncurrent liabilities	-0-	102,030	102,030
TOTAL LIABILITIES	1,931	113,427	115,358
NET ASSETS			
Invested in capital assets, net of related debt	13,905	101,303	115,208
Restricted for debt service	-	89,174	89,174
Unrestricted	131,710	42,990	174,700
TOTAL NET ASSETS	\$ 145,615	\$ 233,467	\$ 379,082

See accompanying notes to financial statements.

Township of Washington
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Governmental activities						
General government	\$ 35,495	\$ 2,356	\$ 4,800	\$ (28,339)	\$ -	\$ (28,339)
Public works	36,806	-	-	(36,806)	-	(36,806)
Community and economic development	2,014	-	-	(2,014)	-	(2,014)
Total governmental activities	74,315	2,356	4,800	(67,159)	-0-	(67,159)
Business-type activities:						
Sewer	15,339	3,531	-	-	(11,808)	(11,808)
Total government	<u>\$ 89,654</u>	<u>\$ 5,887</u>	<u>\$ 4,800</u>	(67,159)	(11,808)	(78,967)
General revenues:						
Property taxes				22,545	-	22,545
State shared revenue				64,932	-	64,932
Investment earnings				3,393	556	3,949
Miscellaneous				2,953	15	2,968
Total general revenues				93,823	571	94,394
Change in net assets				26,664	(11,237)	15,427
Net assets, beginning of the year				118,951	244,704	363,655
Net assets, end of the year				<u>\$ 145,615</u>	<u>\$ 233,467</u>	<u>\$ 379,082</u>

See accompanying notes to financial statements.

Township of Washington

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2006

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 129,495
Due from other governmental units - local	3,421
Interest receivable	<u>725</u>
TOTAL ASSETS	<u><u>\$ 133,641</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 1,931
FUND BALANCES	
Unreserved	
Undesignated, reported in	
General fund	<u>131,710</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 133,641</u></u>

See accompanying notes to financial statements.

Township of Washington

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance - governmental funds \$ 131,710

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 62,759	
Accumulated depreciation is	<u>(48,854)</u>	
Capital assets, net		<u>13,905</u>

Net assets of governmental activities \$ 145,615

See accompanying notes to financial statements.

Township of Washington

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2006

	<u>General</u>
REVENUES	
Taxes	\$ 22,545
Intergovernmental	64,932
Charges for services	2,356
Interest and rents	3,393
Other	<u>2,953</u>
TOTAL REVENUES	96,179
EXPENDITURES	
Current	
General government	34,703
Public works	36,806
Community and economic development	<u>2,014</u>
TOTAL EXPENDITURES	<u>73,523</u>
EXCESS OF REVENUES OVER EXPENDITURES	22,656
Fund balances, beginning of year	<u>109,054</u>
Fund balances, end of year	<u><u>\$ 131,710</u></u>

See accompanying notes to financial statements.

Township of Washington

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balances - total governmental funds	\$	22,656
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(792)
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Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	<u>4,800</u>
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Change in net assets of governmental activities	\$	<u>26,664</u>
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See accompanying notes to financial statements.

Township of Washington

Proprietary Fund

STATEMENT OF NET ASSETS

March 31, 2006

	<u>Sewer Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 26,281
Receivables	
Accounts	3,721
Special assessments - current	<u>6,846</u>
Total current assets	36,848
Noncurrent assets	
Special assessments - deferred	117,348
Capital assets, net of accumulated depreciation	<u>192,698</u>
Total noncurrent assets	<u>310,046</u>
TOTAL ASSETS	346,894
LIABILITIES	
Current liabilities	
Due to other governmental units	5,791
Accrued interest payable	2,221
Current portion of bonds payable	<u>3,385</u>
Total current liabilities	11,397
Noncurrent liabilities	
Noncurrent portion of bonds payable	88,010
Advance from other governments	<u>14,020</u>
Total noncurrent liabilities	<u>102,030</u>
TOTAL LIABILITIES	<u>113,427</u>
NET ASSETS	
Invested in capital assets, net of related debt	101,303
Restricted for debt service	89,174
Unrestricted	<u>42,990</u>
TOTAL NET ASSETS	<u>\$ 233,467</u>

See accompanying notes to financial statements.

Township of Washington

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended March 31, 2006

	Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,531
Other	15
	<hr/>
TOTAL OPERATING REVENUES	3,546
OPERATING EXPENSES	
Salaries and wages	839
Social security	64
Workers' compensation	43
Supplies	37
Professional services	214
Utilities	875
Equipment rental	85
Repairs and maintenance	803
Insurance	16
Depreciation	6,113
Other	26
	<hr/>
TOTAL OPERATING EXPENSES	9,115
	<hr/>
OPERATING LOSS	(5,569)
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	556
Interest and fiscal charges	(6,224)
	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES)	(5,668)
	<hr/>
CHANGE IN NET ASSETS	(11,237)
Net assets, beginning of year	244,704
	<hr/>
Net assets, end of year	\$ 233,467
	<hr/>

See accompanying notes to financial statements.

Township of Washington
Proprietary Fund
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 9,498
Cash paid to employees	(839)
Cash paid to suppliers	<u>(766)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,893
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment on advance from other governmental units	(880)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(875)
Payment of bonds payable	(3,385)
Interest and fiscal charges	<u>(6,224)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(10,484)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>556</u>
NET (DECREASE) IN CASH DURING YEAR	(2,915)
Cash, beginning of year	<u>29,196</u>
Cash, end of year	<u><u>\$ 26,281</u></u>
Reconciliation of operating loss to net cash (used) by operating activities	
Operating loss	\$ (5,569)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	6,113
Decrease in accounts receivable	5,968
Increase in due to other governmental units	1,453
(Decrease) in accrued interest payable	<u>(72)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 7,893</u></u>

See accompanying notes to financial statements.

Township of Washington
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Township, Michigan, was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Gratiot County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services in many areas including fire protection, roads, sewer, and planning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Township of Washington. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Washington contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Township as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sewer Fund accounts for resources generated by providing sewer services to certain residents of the Township; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. The length of time used to define "available" for purposes of revenue recognition is 60 days. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Township of Washington
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General Fund budget was prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. There were no amendments to the originally adopted budget.

6. Cash and cash equivalents

Cash and cash equivalents consists of checking accounts, savings accounts, and certificates of deposit with an original maturity of less than 90 days.

7. Receivables

Receivables consist of amounts due from other governmental units for property taxes and accrued interest receivables for unpaid interest related to the Township's certificates of deposit at March 31, 2006.

8. Property Tax

The Township of Washington bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

Township of Washington
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Property Tax - continued

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2006, the Township levied 0.9778 mills per \$1,000 of assessed valuation for general governmental services. The total Taxable Value for the 2005 levy for property within the Township was \$19,201,553.

9. Pompeii Sewer

The Pompeii Sewer project is a joint project between the Townships of Washington and Fulton, and is being administered by Fulton Township. Fulton Township is responsible for paying all bills related to general operations of the system along with the collecting of sewer usage and special assessment revenue. The activity has been recorded in Washington Township's financial statements because the system is partially owned by Washington Township. Washington Township's percentage share of the system is 33.85 percent.

10. Capital Assets

The following capital asset information is not based on any formally documented policies and procedures that are in place at the Township, but based on general knowledge and current practice. The Township has no formal capitalization policies in place.

Capital assets include land, buildings, furniture and equipment, and the sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer system and improvements	40 years
Furniture and equipment	5-7 years
Buildings	50 years

11. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

12. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

Township of Washington
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, the carrying amounts of the Township's deposits were \$155,776 and the bank balance was \$157,796. The Township's deposits were fully insured by the FDIC.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Township of Washington
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Custodial credit risk

The Township has not adopted a policy that addresses custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,575	\$ -	\$ -	\$ 5,575
Capital assets being depreciated				
Buildings	40,193	-	-	40,193
Equipment	<u>12,191</u>	<u>4,800</u>	<u>-</u>	<u>16,991</u>
Subtotal	52,384	4,800	-0-	57,184
Less accumulated depreciation for:				
Buildings	(36,438)	(150)	-	(36,588)
Equipment	<u>(11,624)</u>	<u>(642)</u>	<u>-</u>	<u>(12,266)</u>
Subtotal	<u>(48,062)</u>	<u>(792)</u>	<u>-0-</u>	<u>(48,854)</u>
Net capital assets being depreciated	<u>4,322</u>	<u>4,008</u>	<u>-0-</u>	<u>8,330</u>
Total net capital assets	<u>\$ 9,897</u>	<u>\$ 4,008</u>	<u>\$ -0-</u>	<u>\$ 13,905</u>

Depreciation expense in the amount of \$792 was charged to the general government function on the Statement of Activities.

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Business-type activities				
Capital assets being depreciated				
Sewer system	\$ 241,016	\$ 875	\$ -	\$ 241,891
Less accumulated depreciation for:				
Sewer system	(43,080)	(6,113)	-	(49,193)
Total net capital assets	<u>\$ 197,936</u>	<u>(5,238)</u>	<u>\$ -0-</u>	<u>\$ 192,698</u>

Depreciation expense in the amount of \$6,113 was charged to the Business-type activities in the financial statements at March 31, 2006.

Township of Washington
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended March 31, 2006:

	Balance April. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Business-type activities					
Sewer Fund					
1996 Revenue Bonds	\$ 94,780	\$ -	\$ 3,385	\$ 91,395	\$ 3,385

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds. These bonds are split \$108,320 and \$211,680 between Washington and Fulton Townships respectively. Bonds are dated August 1, 1996. Washington Township's annual installments range from \$3,385 to \$5,078 through May 1, 2022, with interest ranging from 5.2 to 6.0 percent, payable semi-annually.

\$ 91,395

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending March 31,	1996 Revenue Bonds	
	Principal	Interest
2007	\$ 3,385	\$ 5,242
2008	3,385	5,064
2009	3,385	4,883
2010	3,385	4,698
2011	5,078	4,463
2012-2016	25,387	17,936
2017-2021	33,850	9,140
2022-2023	<u>13,540</u>	<u>812</u>
	<u>\$ 91,395</u>	<u>\$ 52,238</u>

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Proprietary Fund and Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source (bond ordinance, etc.) which precludes their use for unrestricted purposes. The following represents the net asset restriction as of March 31, 2006:

Business-type activities	
Restricted for debt service	<u>\$ 89,174</u>

NOTE I: RISK MANAGEMENT

The Township is exposed to various risks of worker's compensation and employer's liability for which the Township carries commercial insurance.

The Township also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, automobile and crime losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

Township of Washington

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE J: RETIREMENT PLAN

The Township of Washington is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Washington Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2006 the Township of Washington made contributions for all eligible employees at a rate of 7.45% of wages.

To be eligible to participate, an employee must be considered a full-time employee. All 5 eligible employees participate in the plan. The contributions fund the premiums for Individual Deferred Annuity policies with The Manufacturers Life Insurance Company.

For the year ended March 31, 2006, the Township of Washington had a total payroll of \$21,139. The Township of Washington Retirement Plan covered a payroll of \$19,325. The Township of Washington's estimated contribution of \$1,440 was shown as part of liabilities with a corresponding expense recorded in the financial statements at year-end as the 05/06 required contribution had not been made as of March 31, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Washington

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 23,410	\$ 23,410	\$ 22,545	\$ (865)
Intergovernmental	69,200	69,200	64,932	(4,268)
Charges for services	2,750	2,750	2,356	(394)
Interest and rents	4,125	4,125	3,393	(732)
Other	2,300	2,300	2,953	653
TOTAL REVENUES	101,785	101,785	96,179	(5,606)
EXPENDITURES				
General government				
Legislative	7,850	7,850	4,163	3,687
Supervisor	1,100	1,100	812	288
Clerk	10,075	10,075	5,397	4,678
Board of review	900	900	525	375
Treasurer	14,950	14,950	9,355	5,595
Assessor	9,200	9,200	6,189	3,011
Elections	5,000	5,000	-	5,000
Hall and grounds	7,000	7,000	2,486	4,514
Cemetery	3,200	3,200	2,306	894
Other	3,700	3,700	3,470	230
Total general government	62,975	62,975	34,703	28,272
Public safety				
Fire	19,000	19,000	-	19,000
Rescue	5,500	5,500	-	5,500
Other	3,000	3,000	-	3,000
Total public safety	27,500	27,500	-0-	27,500
Public works				
Highways and streets	62,200	62,200	30,703	31,497
Drains	6,000	6,000	4,887	1,113
Street lights	1,300	1,300	1,216	84
Total public works	69,500	69,500	36,806	32,694
Community and economic development				
Zoning	3,250	3,250	2,014	1,236

Township of Washington

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
TOTAL EXPENDITURES	<u>\$ 163,225</u>	<u>\$ 163,225</u>	<u>\$ 73,523</u>	<u>\$ 89,702</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(61,440)	(61,440)	22,656	84,096
Fund balance, beginning of year	<u>109,054</u>	<u>109,054</u>	<u>109,054</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 47,614</u></u>	<u><u>\$ 47,614</u></u>	<u><u>\$ 131,710</u></u>	<u><u>\$ 84,096</u></u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

To the Members of the Township Board
Township of Washington
Ashley, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Township of Washington, Michigan for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. The Township should prepare a listing of capital assets for incorporating estimated useful lives and develop a capitalization threshold.

During our analysis of the capital assets, we noted that the Township has not maintained historical cost information for capital assets and estimated useful lives for each capital asset have not been assigned. Additionally, there is not a Board established capitalization threshold amount. This issue was noted and reported in our comments from prior audits.

We suggest the Township develop and adopt a formal capitalization policy establishing a threshold for items to be included on the list. The Township should also prepare a current listing of capital assets, assigning estimated useful lives, where applicable. Such information should then be maintained each year in order to calculate depreciation expense and accumulated depreciation for the capital assets.

2. The Township should include expenditure amounts in the meeting minutes.

During our review of Board minutes for the year, we noted general Board approval of the budgeted expenditures. However, we did note that the actual minutes of the Board meeting did not indicate the amounts that had been approved for the 05/06 budget. The original budget document is kept as a separate document. This issue was noted and reported in our audit comments from prior audits.

We suggest the actual Board minutes note the total approved budget amounts by activity. This will provide a better trail and documentation of Board authorization of expenditures.

3. Supporting documentation for receipts and disbursements should be retained.

During our testing of the receipt and disbursement processes, we noted that supporting documentation for one (1) receipt and one (1) disbursement was not retained for audit purposes.

We suggest that all supporting documentation be retained for audit purposes.

4. The Board should amend the Township's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Township has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds.

These resources are necessary for the delivery of the Township's services programs. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

5. The Township should prepare and file payroll compliance reports.

During the course of our audit, it was noted that various individuals (Board members, etc.) were paid as employees (reported on W-2's), but no payroll 941 forms were prepared or filed. This issue was noted and reported in our audit comments from prior audits.

We suggest the Township file the required payroll forms.

6. The Township should authorize pay rates for employees and include this approval as part of the minutes.

During the course of our audit, it was noted that there were no indications in the Board minutes of authorized pay rates for employees. Although the budget document includes pay rate amounts they were not formally approved by the Board in the minutes.

We suggest the Township Board approve pay rates annually and incorporate them into the meeting minutes.

7. The Township should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Township may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Township Board provide a greater review and supervision of employee functions and procedures.

8. The Township should implement a double entry accounting system.

The Township's accounting system currently does not utilize a "general ledger", which would provide a double entry accounting system to help assure reconciliation of significant accounts and provide expense detail by program area.

We suggest the Township implement a general ledger accounting system to better account for the Township's financial activity.

9. The Township should assure that the approvals of expenditures are specifically documented in the Board minutes.

During our review of the board minutes, we noted that the minutes do not always document the approval of expenditures by noting the range of checks being approved or the total value of invoices to be paid.

We suggest that the Township present all checks to the Board prior to disbursement, and that invoices to be paid are approved by the Board by indicating the range of check numbers and total value to be paid.

10. The Township should ensure retirement contributions are remitted timely.

During the course of our audit, it was determined that the contributions to the retirement plan for the 05/06 fiscal year had not been remitted to the retirement plan administrator as of the last day of fieldwork.

We suggest that the Township get the 05/06 contribution remitted immediately and also put procedures in place to assure future contributions are remitted on a timely basis.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements and this report does not affect our report on the general purpose financial statements dated August 25, 2006.

This report is intended solely for the use of management and the Township Board of the Township of Washington, Michigan and should not be used for any other purpose. We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 25, 2006